

VZCZCXYZ0023  
RR RUEHWEB

DE RUEHINA #2590 2140927  
ZNR UUUUU ZZH ZUI RUEWMCF2046 2140926  
R 020927Z AUG 06  
FM AIT TAIPEI  
TO RUEHC/SECSTATE WASHDC 0000  
INFO CHINA POSTS COLLECTIVE  
RHEFDIA/DIA WASHINGTON DC  
RUEAIIA/CIA WASHDC  
RUCPDOC/DEPT OF COMMERCE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS AIT TAIPEI 002590

SIPDIS

SENSITIVE  
SIPDIS

DEPT FOR EAP/TC

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EAIR](#) [EINV](#) [PREL](#) [CH](#) [TW](#)

SUBJECT: VAGUE CONSENSUS, MINORITY OPINIONS, POSITIVE SIGNALS - SUSTAINABLE ECONOMIC DEVELOPMENT CONFERENCE CONCLUDES

REF: A. TAIPEI 2307

- [1B.](#) TAIPEI 2365
- [1C.](#) TAIPEI 2462
- [1D.](#) TAIPEI 2488
- [1E.](#) TAIPEI 2493
- [1F.](#) TAIPEI 2542

[¶11.](#) (SBU) SUMMARY: TAIWAN'S SUSTAINABLE ECONOMIC DEVELOPMENT CONFERENCE CONCLUDED JULY 28 PRODUCING NUMEROUS VAGUE CONSENSUS RECOMMENDATIONS. MORE CONTENTIOUS AND CONCRETE RECOMMENDATIONS WERE RELEGATED TO THE CATEGORY OF "OTHER OPINIONS," ON WHICH NO CONSENSUS WAS POSSIBLE. HIGHLIGHTS INCLUDED FINANCIAL SECTOR RECOMMENDATIONS, WHICH SEEM TO REFLECT A NEW APPROACH BY THE ADMINISTRATION TO FINANCIAL SECTOR REFORM. HOWEVER, THE MOST IMPORTANT RESULT OF THE CONFERENCE WAS THE SIGNAL PREMIER SU SENT OF HIS DETERMINATION TO PROCEED WITH ADDITIONAL CROSS-STRAIT OPENING MEASURES THAT COULD HAVE A STRONG POSITIVE IMPACT ON TAIWAN'S ECONOMY OVERALL. END SUMMARY.

[¶12.](#) (SBU) TAIWAN'S LONG-AWAITED SUSTAINABLE ECONOMIC DEVELOPMENT CONFERENCE CONCLUDED JULY 28 AFTER REACHING CONSENSUS ON 516 RECOMMENDATIONS. HOWEVER, MOST OF THE CONSENSUS RECOMMENDATIONS AMOUNTED TO LITTLE MORE THAN VAGUE STATEMENTS ON WIDELY-ACCEPTED PRINCIPLES THAT SHOULD GUIDE TAIWAN'S ECONOMIC POLICY. MORE ATTENTION WAS FOCUSED ON "OTHER OPINIONS" IN THE REPORT, WHICH REPRESENTED THE VIEWS OF SOME OF THE PARTICIPANTS BUT NOT A CONSENSUS. THE CONFERENCE REPORT INCLUDED 166 "OTHER OPINIONS". SINCE THE CONFERENCE, TAIWAN OFFICIALS HAVE INDICATED THAT THEY WILL TAKE ACTION IMMEDIATELY TO IMPLEMENT CONSENSUS RECOMMENDATIONS AND WILL GIVE THE "OTHER OPINIONS" RECOMMENDATIONS FURTHER STUDY.

[¶13.](#) (U) THE CONFERENCE WAS DIVIDED INTO FIVE SESSIONS, WHICH ADDRESSED THE FINANCIAL SECTOR, INDUSTRIAL COMPETITIVENESS, GOVERNMENT EFFICIENCY, THE SOCIAL SECURITY SYSTEM, AND GLOBALIZATION AND CROSS-STRAIT ECONOMIC RELATIONS. EACH SESSION PRODUCED ITS OWN REPORT OF RECOMMENDATIONS.

FINANCE - REFORM AND STATE-OWNED INSTITUTIONS

---

[¶14.](#) (SBU) IN THE FINANCIAL SECTOR SESSION, THE MOST

IMPORTANT CONSENSUS ITEMS FOCUSED MAINLY ON THE TAIWAN AUTHORITIES HANDLING OF STATE-OWNED FINANCIAL INSTITUTIONS. THE RECENT CONTROVERSY OVER CHINATRUST'S EFFORTS TO TAKE OVER STATE-OWNED MEGA FINANCIAL HOLDING COMPANY (REPORTED REFS A AND E) HIGHLIGHTED PUBLIC CONCERN OVER THIS ISSUE. SOME OF THE CONFERENCE RECOMMENDATIONS ENCOURAGED THE AUTHORITIES TO FOCUS MORE ON IMPROVING THE MANAGEMENT OF STATE-OWNED FINANCIAL INSTITUTIONS RATHER THAN RAPID PRIVATIZATION. THE RECOMMENDATIONS ALSO ENDORSED LIFTING SOME RESTRICTIONS ON THE OPENING OF NEW BANK BRANCHES IN TAIWAN. THESE REFLECT A SHIFT IN THE ADMINISTRATION ON ITS APPROACH TO FINANCIAL SECTOR REFORM. THERE WAS ALSO CONSENSUS TO ALLOW INVESTMENT FUNDS TO PURCHASE MAINLAND CHINESE SECURITIES. THE "OTHER OPINIONS" FOCUSED MAINLY ON CROSS-STRAIT RESTRICTIONS AS WELL. THEY INCLUDED A RECOMMENDATION TO LIFT THE 40 PERCENT CEILING ON TAIWAN INVESTMENT IN THE PRC (REF F), OPENING THE WAY FOR TAIWAN BANKS AND OTHER FINANCIAL INSTITUTIONS TO OPEN BRANCHES OR EXPAND OPERATIONS IN THE MAINLAND, AND PERMITTING PRC BANKS TO OPEN REPRESENTATIVE OFFICES IN TAIWAN.

#### INDUSTRY - GDP TARGETS AND FOREIGN LABOR

---

**15.** (SBU) THE SESSION ON INDUSTRIAL COMPETITIVENESS PRODUCED MORE RECOMMENDATIONS THAN ANY OTHER WITH 148 CONSENSUS ITEMS AND 88 "OTHER OPINIONS". HOWEVER, MANY ITEMS ADDRESSED VERY SPECIFIC PROBLEMS IN A PARTICULAR INDUSTRY. OTHERS FOLLOWED THE LARGER PATTERN OF THE CONFERENCE BY SETTING BROAD GOALS WITHOUT MUCH DIRECTION ON HOW TO ACHIEVE THEM. FOR EXAMPLE, ONE RECOMMENDATION SET THE GOAL THAT TAIWAN'S GDP PER CAPITA REACH US\$ 30,000 BY 2015 AND THAT UNEMPLOYMENT BE MAINTAINED BELOW 4 PERCENT. SEVERAL OF THE RECOMMENDATIONS ADDRESSED THE PROBLEM OF THE RISING COST OF UNSKILLED LABOR. THERE WAS CONSENSUS TO REVIEW THE POLICY ON FOREIGN LABOR IN TAIWAN, BUT ONE OF THE "OTHER OPINIONS" WAS A RECOMMENDATION TO GRADUALLY REDUCE THE NUMBER OF FOREIGN WORKERS IN TAIWAN. THE PARTICIPANTS WERE UNABLE TO REACH CONSENSUS ON OTHER KEY ITEMS AS WELL. THE PROPOSAL TO DELAY IMPLEMENTING A 10 PERCENT CORPORATE TAX

ON UNDISTRIBUTED PROFITS WAS INCLUDED UNDER "OTHER OPINIONS". ALTHOUGH THE CONFERENCE REACHED CONSENSUS ON THE NEED TO CONTROL GREENHOUSE GAS EMISSIONS, THERE WAS NO CONSENSUS ON STANDARDS. A RECOMMENDATION TO RESTRICT EMISSIONS FOR HIGH-POLLUTING INDUSTRIES BASED ON THE AVERAGE RATE OF OECD NATIONS IN 2000 WAS RELEGATED TO "OTHER OPINIONS".

#### GOVERNMENT EFFICIENCY - DEALING WITH SCANDALS

---

**16.** (SBU) DISCUSSIONS OF GOVERNMENT EFFICIENCY REFLECTED CONCERNS GENERATED BY HIGHLY-PUBLICIZED POLITICAL SCANDALS. ONE CONSENSUS RECOMMENDATION PROPOSED THE ESTABLISHMENT OF A SPECIAL AGENCY TO INVESTIGATE CORRUPTION AMONG PUBLIC OFFICIALS. ANOTHER CALLED FOR A REVIEW OF THE RETIREMENT SYSTEM FOR OFFICIALS. RECOMMENDATIONS UNDER "OTHER OPINIONS" INCLUDED A REVIEW OF THE METHODS USED TO FREEZE THE BUDGETS OF PARTICULAR AGENCIES.

#### SOCIAL SECURITY - DAY CARE, PENSIONS, HEALTH INSURANCE

---

**17.** (U) THE SESSION ON SOCIAL SECURITY WAS AMONG THE LEAST CONTENTIOUS. THE CONFERENCE WAS ABLE TO REACH CONSENSUS ON 107 RECOMMENDATIONS WITH ONLY FIVE "OTHER OPINIONS". THE CONFERENCE MADE CONSENSUS RECOMMENDATIONS TO COMPLETE LEGISLATION ON THE PENSION SYSTEM, IMPROVE DAY-CARE AND LEAVE OPTIONS FOR WORKING PARENTS, AND CALCULATE INSURANCE PREMIUMS BASED ON CUMULATIVE FAMILY INCOMES.

#### CROSS-STRAIT - "OTHER OPINIONS" ABOUND

---

**18.** (SBU) SOME OF THE RECOMMENDATIONS UNDER THE TOPIC OF

GLOBALIZATION AND CROSS-STRAIT ISSUES WERE DESCRIBED REF F. THE HIGHLIGHTS INCLUDED CONSENSUS ENDORSEMENT OF CROSS-STRAIT CONSULTATIONS ON BANKING AND SECURITIES AIMED AT OPENING THE PRC TO TAIWAN FIRMS, AND FURTHER OPENING TAIWAN TO PRC TOURISTS AND PRC EMPLOYEES OF TAIWAN AND MULTINATIONAL FIRMS. BOTH SIDES OF THE DEBATE WERE ABLE TO INSERT CONTROVERSIAL AND OFTEN CONTRADICTORY "OTHER OPINIONS" ON CROSS STRAIT ISSUES. PRO-LIBERALIZATION PARTICIPANTS ADDED RECOMMENDATIONS TO EASE THE 40 PERCENT INVESTMENT CEILING AND PROMOTE CROSS-STRAIT PASSENGER AND CARGO CHARTERS. INDEPENDENCE-LEANING ANTI-LIBERALIZATION PARTICIPANTS ADDED "OTHER OPINIONS" CALLING ON TAIWAN TO MAINTAIN THE CEILING ON INVESTMENT, OPPOSE REGULAR CHARTER SERVICES AS AN INTERIM STEP TOWARDS DIRECT LINKS, AND STOP DELEGATING CROSS-STRAIT DISCUSSIONS TO INDUSTRY GROUPS ACCORDING TO THE "MACAU MODEL" USED TO NEGOTIATE CHARTER FLIGHTS. WE WILL PROVIDE MORE INFORMATION ON THE ADMINISTRATION'S PLANS TO IMPLEMENT THE CROSS-STRAIT RECOMMENDATIONS SEPTEL.

#### CONSENSUS IS DISAPPOINTMENT

---

¶9. (SBU) THE REACTION TO THE RESULTS OF THE CONFERENCE AMONG INDUSTRY LEADERS AND OTHER OBSERVERS HAS BEEN MOSTLY ONE OF DISAPPOINTMENT. IN GENERAL, TAIWAN BUSINESS LEADERS, WHO FOCUSED PRIMARILY ON CROSS-STRAIT LIBERALIZATION, FEEL THE CONFERENCE DID NOT GO FAR ENOUGH. MANY HOPED THE CONFERENCE WOULD PRODUCE A CONSENSUS TO LIFT THE 40 PERCENT CEILING ON INVESTMENT IN MAINLAND CHINA BUT WERE DISAPPOINTED THAT IT WAS ONLY INCLUDED UNDER "OTHER OPINIONS". JEFF CHANG, PRESIDENT OF CATHAY SECURITIES INVESTMENT TRUST SAID "THE WHOLE CONFERENCE IS LIKE A SHOW, IN WHICH WE DO NOT EXPECT ANY SUBSTANTIAL RELAXATION OF CROSS-STRAIT RESTRICTIONS OR IMPRESSIVE CHANGES IN ECONOMIC POLICY." GARY WANG, CHAIRMAN OF THE GENERAL CHAMBER OF COMMERCE SAID "WE ARE NOT SATISFIED WITH THE CONFERENCE, BUT THERE IS NOTHING WE CAN DO BUT ACCEPT IT." NEVERTHELESS, FOUR MAJOR INDUSTRY GROUPS ISSUED A JOINT PRESS RELEASE AFTER THE CONFERENCE COMMENDING THE RESULTS.

¶10. (SBU) PRO-INDEPENDENCE "DEEP GREEN" SUPPORTERS, ESPECIALLY TAIWAN SOLIDARITY UNION (TSU) PARTICIPANTS IN THE CONFERENCE, HAVE BEEN HIGHLY CRITICAL OF THE OUTCOME. THE TSU WALKED OUT OF THE CONFERENCE ON THE SECOND DAY (REF F) AND FORMER PRESIDENT LEE TENG-HUI GAVE A SCATHING SPEECH THE DAY AFTER THE CONFERENCE ENDED SAYING THAT INDUSTRY HAD "KIDNAPPED" THE ADMINISTRATION AT THE CONFERENCE. ENVIRONMENTAL PROTECTION GROUPS WERE ALSO OUTRAGED AND MANY

WALKED OUT OF THE CONFERENCE THE SECOND DAY. TAIWAN ENVIRONMENTAL PROTECTION UNION CHAIRMAN CHEN CHIAO-HUA SAID THE CONFERENCE WAS "MEANINGLESS" BOTH IN TERMS OF "SUSTAINABILITY" AND "DEVELOPMENT." LABOR GROUPS WERE VOCAL IN THEIR CRITICISM OF PLANS TO RELAX CROSS-STRAIT TRADE AND DISSATISFIED WITH THE RESULTS.

#### COMMENT - THE REAL IMPACT

---

¶11. (SBU) REACTIONS TO THE CONFERENCE HAVE BEEN CONSISTENT WITH THE PREDICTION OF COUNCIL FOR ECONOMIC PLANNING AND DEVELOPMENT CHAIRMAN HU SHENG-CHENG, WHO TOLD AIT BEFORE THE EVENT THAT IF EVERYONE WAS DISSATISFIED WITH THE RESULTS IT WOULD MEAN THAT THE CONFERENCE HAD STRUCK A BALANCE THAT APPROXIMATES A CONSENSUS. THE UNHAPPY BALANCE ACHIEVED SEEMS TO HAVE FAVORED BUSINESS INTERESTS OVERALL. HOWEVER, THE REAL NEWS OF THE CONFERENCE WAS NOT APPARENT IN THE RECOMMENDATIONS. MANY OF THE CONSENSUS RECOMMENDATIONS WILL BENEFIT THE TAIWAN ECONOMY IN SOME WAYS, BUT THE MOST IMPORTANT RESULT WAS THE SIGNAL PREMIER SU SENT THAT HE INTENDS TO PROCEED WITH CROSS-STRAIT LIBERALIZATION EVEN IN THE FACE OF VOCAL OPPOSITION FROM THE DEEP GREEN. LIFTING THE INVESTMENT CEILING, MOVING TOWARD DIRECT TRANSPORTATION LINKS AND OPENING THE PRC TO TAIWAN BANKS AND OTHER FINANCIAL INSTITUTIONS, IF AND WHEN

IMPLEMENTED, WILL HAVE A MAJOR POSITIVE EFFECT ON TAIWAN'S ECONOMY OVERALL AND ITS COMPETITIVENESS IN THE REGION. THEY WILL BE IMPORTANT STEPS IN STAVING OFF THE ECONOMIC MARGINALIZATION SO MANY IN TAIWAN FEAR.

YOUNG